COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1117-09
Bill No.: SCS for HB 385
Subject: Administrative Rules; Retirement–Schools; Teachers
Type: Original
Date: April 30, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None	$0	$0	$0
Total Estimated Net Effect on All State Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None	$0	$0	$0
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government*	**$0**	**$0**	**$0**

***Does not include elimination of surplus of $331 million and creation of the UAAL of $264 million, a total cost of $595 million for the PSRS. Does not include the $110 million reduction in the surplus for the NTRS. PSRS and NTRS funds are not considered local funds for fiscal note purposes.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Joint Committee on Public Employee Retirement** have reviewed this proposal and have determined that it represents a "substantial proposed change" in future plan benefits as defined in section 105.660(5), RSMo. Therefore, an actuarial cost statement is required.

Officials of the **Office of Administration** indicates that any impact should be determined by the retirement systems.

Officials with the **Public School & Non-Teacher School Employee Retirement Systems** assume the proposal will:

Public School Retirement System (PSRS)

1. Change the COLA effective date to the second January 1st following retirement for members retiring on or after July 1, 2001.
2. Increase the formula factor for all years for those retirees with 31.0 years of credit or more who retire between July 1, 2001 and June 30, 2008. [Formula increases to 2.55%.]
3. Provide an increase for current retirees and beneficiaries of deceased retirees of $3 per month per year of service.
4. Allows surviving spouses to apply for benefits to which they were not previously eligible because of remarriage.
5. Allows PSRS to continue to pay benefits & collect contributions as currently established in state law as set forth under Section 415 of Title 26 of the federal tax code. [There is no cost attached to this change.]
6. Allows for the promulgation of rules to recognize service credit in the four school retirement systems to establish eligibility for retirement benefits. No credit or assets will be transferred to or from any of the systems.

Officials with the PSRS obtained an actuarial cost report for the proposed changes. Officials note that the PSRS is overfunded by $331 million as of June 30, 2000. The effect of the proposal will be to create an unfunded actuarial accrued liability (UAAL), which PSRS states will be $264 million. This is based on an estimated cost of the provisions of $595 million. The actuarially required contribution (ARC) following the proposal is calculated at 20.93% of pay. This is less than the current contribution rate of 21.00%.

Oversight assumes that **while there is no immediate cost to the local school districts since the contribution rate would not increase, there is significant fiscal impact to the retirement system.** Funds of the retirement system are not considered local funds for fiscal note purposes. There will be a long-term fiscal impact as a result of this legislation, since the elimination of the

ASSUMPTION (continued)

system's surplus, and the creation of the UAAL will contribute to any need for increased contributions in the future. Additionally, Oversight notes that the reported surplus of $331 million is significantly less than the $1.16 billion reported in October, 2000 for the period ended June 30, 2000. The PSRS is calculating the surplus based on actuarial assumptions adopted January, 2001, not on the same assumptions used in preparing the most recent periodic actuarial valuation for the plan, as required by Section 105.665(2).

Non-Teacher School Employee Retirement System (NTRS)

1. Increase the benefit formula factor from 1.51% to 1.61%.
2. Increase the formula under the 25-and-out provisions [by .1%].
3. Increase the COLA cap from 75% to 80%.
4. Across-the-board increase of 7.1% for retirees and beneficiaries of deceased retirees.
5. Increase from the current .4% to .8% the additional payment made for those retiring with either 30 years of credit or under the "rule of 80" who retire on or after July 1, 2001. This additional payment ends when the retiree reaches the minimum age for social security retirement eligibility.

Officials note that the NTRS is overfunded by $166 million as of June 30, 2000. NTRS officials state that the effect of the proposal will be to reduce the reduce this surplus to $56 million. This is based on the cost of the provisions estimated at $110 million. The actuarially required contribution (ARC) following the proposal is calculated at 9.96% of pay. This is less than the current contribution rate of 10.00%.

Oversight assumes that **while there is no immediate cost to the local school districts since the contribution rate would not increase, there is significant fiscal impact to the retirement system.** Funds of the retirement system are not considered local funds for fiscal note purposes. There will be a long-term fiscal impact as a result of this legislation, since the reduction of the plan's surplus will contribute to any need for increased contributions in the future. Additionally, Oversight notes that the reported surplus of $161 million is significantly more than the $127 million reported in October, 2000 for the period ended June 30, 2000. The NTRS is calculating the surplus based on actuarial assumptions adopted January, 2001, not on the same assumptions used in preparing the most recent periodic actuarial valuation for the plan, as required by Section 105.665(2).

The **Saint Louis Public School Public School Retirement System** indicates there will be no fiscal impact to their systems as a result of the proposal. Officials with the **Kansas City Public School Retirement System** indicated in response to previous similar legislation that the proposal would have no fiscal impact to their system.

FISCAL IMPACT - State Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
	$0	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
	$0*	**$0***	**$0***

***Does not include elimination of surplus of $331 million and creation of the UAAL of $264 million, a total cost of $595 million for the PSRS. Does not include the $110 million reduction in the surplus for the NTRS. PSRS and NTRS funds are not considered local funds for fiscal note purposes.**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This act modifies the current Public School Retirement System pertaining to teachers and non-teachers.

TEACHER MEMBER MODIFICATIONS - An additional option is provided for teacher members who have thirty-one years or more of creditable service, regardless of age. Such persons may elect a retirement allowance of two and fifty-five hundredths percent of the members' final average salary for each year of membership service. Members retiring between July 1, 2001, and June 1, 2008, may elect this option.

The cost of living (COLA) increase for members retiring on or after July 1, 2001 will become effective the second January 1st following the member's retirement.

Members who retire prior to July 1, 2001, receive an additional amount equal to three dollars times the member's number of years of creditable service.

This act authorizes the Public School Retirement System Board of Trustees to establish a benefit plan with benefits in excess of the federal maximum benefit amount established in 26 U.S.C. 415. The "secondary" plans may only be used to provide benefits in excess of the federal maximum benefit amounts. (Section 169.070)

This portion of the act has an emergency clause.

DESCRIPTION (continued)

SURVIVING SPOUSE BENEFITS - This act extends to surviving spouses of members of the Public School Retirement System who remarried before August 28, 1995 any remaining benefits. The act prohibits retroactive benefits. (Section 169.075)

PUBLIC SCHOOL RETIREMENT SYSTEMS RULES - This act requires all school retirement systems created under Chapter 169, RSMo, to promulgate joint rules providing for reciprocity and recognition of credit under any of those systems. The rules shall not permit transfer of creditable service or system assets. (Section 169.569)

NON-TEACHER MEMBER MODIFICATIONS - The benefit factor for members is increased from 1.51% to 1.61%.

Members retiring after July 1, 2001, who participate in the Twenty-five and Out retirement option and retire between July 1, 2001 and July 1, 2003, receive a Benefit Factor Increase of 0.10%.

Members whose creditable service is thirty years or whose sum of age and years of service is eighty years or more and who retire on or after July 1, 2001, receive an increase in the temporary allowance. Qualifying members receive a temporary retirement allowance of eight-tenths of one percent of the member's final average salary multiplied by the member's year of service until the member reaches the minimum age for social security benefits. This is an increase to eight-tenths (.8%) from four-tenths (.4%), which was authorized in HB 1808 (2000).

The cost of living increase (COLA) cap is increased from 75% to 80%.

Members retiring prior to July 1, 2001, receive an increase of seven and one-tenth percent of the previous month's benefit.

This portion of the act has an emergency clause. (Section 169.670)

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Joint Committee on Public Employee Retirement
Office of Administration
Public School & Non Teacher School Employee Retirement System
Saint Louis Public School Retirement System
Kansas City Public School Retirement System

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Director

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